

SAPPORO HOLDINGS LIMITED

Semiannual Report 2005

For the six months ended June 30, 2005



**Decisive  
Choices,  
Solid  
Results**

## MESSAGE FROM THE PRESIDENT

Japan's economy saw a modest recovery during the first half of 2005, largely the result of improved consumer spending. As the bipolarization of consumption, the increasingly borderless nature of certain sectors, diversifying consumer preferences and other dynamics became more pronounced, the collective strengths of enterprises were tested to accurately identify and offer the products and services desired by customers. Firms operating in alcoholic beverages, soft drinks, restaurants and other industries where Sapporo Group companies are developing their businesses were no exception.

The Sapporo Group adopted a holding company framework on July 1, 2003. Since then, the Group's four main operating companies in the Alcoholic Beverages, Soft Drinks, Restaurants and Real Estate businesses have continued to implement management reforms and build new business models to become powerful companies in their respective industries.

During the six months under review, the Group's consolidated net sales declined ¥15,614 million, or 7%, year on year to ¥208,688 million. The operating loss of ¥740 million reversed last year's operating income of ¥6,107 million. The net loss for the interim period, meanwhile, amounted to ¥5,288 million, compared to a net income of ¥2,850 million for the same period in the previous year.

### • ALCOHOLIC BEVERAGES

The new beverage market spawned by *Draft One* saw a flurry of activity in April 2005 as Japanese brewers launched new products. Total demand for beer, *Happo-shu* and new types of alcoholic beverages, however, remained weak overall. In response, we enacted the marketing initiatives outlined below.

Now in its second year following a nationwide launch in February 2004, *Draft One* remains popular, with sales continuing to rise despite the entry of new players. In June 2005, we launched *Slims*, a health-conscious product representing another new product genre the Group is pioneering. In total, sales of new types of alcoholic beverages (*Draft One* and *Slims*) were a robust 37% higher year on year.

Despite soft beer demand, overall sales of *Yebisu* brand products edged 1% higher as we strove to heighten the value synonymous with this brand.

In *Sapporo Black Label*, greater emphasis was placed on select ingredients ahead of the production of 100% of our malt and hops under collaborative growing contracts. Nevertheless, sales declined 8% in line with overall beer demand.

In *Happo-shu*, sales of mainstay *Hokkaido Namashibori* fell 28% as our focused approach to this product and efforts to publicize the collaborative growing contract system for the production of ingredients were negated by expansion in the market for new types of alcoholic beverages. Total *Happo-shu* sales fell 38%.

As a result, overall sales volume for beer, *Happo-shu* and new types of alcoholic beverages (*Draft One* and *Slims*) declined 4% year on year, as overall market demand edged 1% lower.

In wine operations, as we appealed to customers with the quality of our flagship domestic brand, *Grand Polaire*, two lower-priced domestic labels—*Ureshii Wine* and *Clear Dry*—continued to claim the leading share in their wine category. We also launched sales of *Amino Nature* as a new entry in response to increasing consumer health consciousness and interest in products with functional properties. In imported wines, we took promotion of our "power" brands a step further, adding a Merlot to the Australian *Yellow Tail* brand. At the same time, we continued to cultivate growth of *Beringer* wine from the U.S., *La Cuvee Mythique* from France and other labels.

These factors culminated in operating revenues of ¥155,550 million in the Alcoholic Beverages segment, down ¥7,243 million, or 4%, year on year. The operating loss of ¥1,638 million reversed last year's operating income of ¥4,266 million.

## • SOFT DRINKS

We strengthened our hand in the growing sugar-free drinks category, and worked to enhance the presence of our increasingly popular carbonated drink and juice brands. In the steadily growing green tea market, we launched value-added products and took other aggressive steps centered on expanding sales of our key *Gyokuro-Iri O-Cha* brand. Green tea sales declined, however, as rival companies took similar steps to reinforce offerings in this category.

In carbonated drinks and juices, sales rose substantially, supported by our *Sparkling* series of carbonated drinks aimed at adults, as well as the popular *Oishibori* brand that gives consumers the taste sensation of real fruit.

The result was operating revenues in the Soft Drinks segment of ¥29,868 million, ¥1,384 million, or 4%, lower year on year. The segment recorded an operating loss of ¥988 million, representing an increased loss of ¥704 million.

## • RESTAURANTS

We continued to distinguish our operations from those of competitors by raising menu quality for each restaurant format and offering recommended menus with an emphasis on seasonal cuisine. At existing outlets, these efforts drove continued year-on-year sales growth, thanks to successful measures to attract families during consecutive public holidays and healthy performance from outlets in Japan's Chubu region, where the World Expo, which is being hosted in Aichi Prefecture, is helping to bring in diners. We also opened six new outlets during the first half of the fiscal year in another bid to expand sales.

On a different note, we closed 16 locations, resulting in a total of 197 outlets as of June 30, 2005. Operating revenues in the Restaurants segment were ¥12,446 million, a year-on-year decline of ¥436 million, or 3%. Operating income was ¥23 million, compared to last year's operating loss of ¥118 million.

## • REAL ESTATE

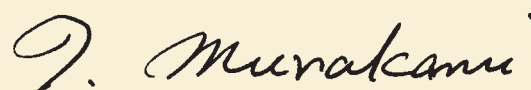
Although there was an improvement in occupancy rates for office buildings in the Tokyo metropolitan area, rents largely remained at low levels, with the exception of some areas in central Tokyo.

Against this backdrop, we made investments to carry out planned improvements and repairs, and to strengthen functionality, with the aim of maintaining and raising operating rates and rent levels for rental office and residential buildings as we aggressively developed our leasing operations. We also held a variety of events and fairs at our two main commercial complexes, *Yebisu Garden Place* and *Sapporo Factory*, enhancing our ability to attract customers by calling attention to these sites.

Operating revenues in the Real Estate segment declined ¥346 million, or 3%, to ¥10,573 million, and operating income was down ¥247 million, or 8%, to ¥2,847 million.

In 2004, the Sapporo Group achieved a return on invested capital of 6.0% and financial liabilities reduced to ¥289,800 million, outperforming goals outlined in our three-year medium-term management plan announced in July 2003. The plan calls for a return on invested capital of 5.0% and financial liabilities to be reduced to ¥290,000 million for the year ending December 31, 2006. We are now formulating a new medium-term plan set to begin in 2006, and will announce planned targets at a later date.

August 2005



Takao Murakami  
President and Representative Director, Group CEO

# CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	¥ 17,653	¥ 21,977	\$ 159,563
Notes and accounts receivable—trade . . . . .	65,225	68,061	589,580
Less: Allowance for doubtful receivables. . . . .	(292)	(261)	(2,641)
Inventories . . . . .	26,462	27,690	239,197
Other current assets . . . . .	31,865	18,642	288,030
Total current assets . . . . .	140,913	136,109	1,273,729
<b>Investments and long-term loans:</b>			
Investments and long-term loans . . . . .	68,783	67,900	621,734
Less: Allowance for doubtful receivables. . . . .	(3,278)	(2,648)	(29,627)
	65,505	65,252	592,107
<b>Property, plant and equipment:</b>			
Land . . . . .	70,248	91,169	634,985
Buildings and structures . . . . .	220,164	268,905	1,990,098
Machinery and automobiles . . . . .	48,791	54,834	441,026
Other . . . . .	7,275	6,398	65,757
	346,478	421,306	3,131,866
<b>Intangibles . . . . .</b>	<b>2,109</b>	<b>2,838</b>	<b>19,065</b>
	<b>¥555,005</b>	<b>¥625,505</b>	<b>\$5,016,767</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current liabilities:</b>			
Short-term bank loans . . . . .	¥ 9,650	¥ 9,805	\$ 87,228
Current portion of long-term debt . . . . .	74,299	57,455	671,601
Notes and accounts payable:			
Trade . . . . .	34,865	35,621	315,147
Construction . . . . .	6,648	4,286	60,091
Liquor taxes payable . . . . .	26,087	28,254	235,807
Other current liabilities . . . . .	66,499	59,517	601,094
Total current liabilities . . . . .	<u>218,048</u>	<u>194,938</u>	<u>1,970,968</u>
<b>Long-term debt . . . . .</b>	<b>181,845</b>	<b>269,644</b>	<b>1,643,718</b>
<b>Dealers' deposits for guarantees . . . . .</b>	<b>34,019</b>	<b>36,975</b>	<b>307,506</b>
<b>Employees' retirement benefits . . . . .</b>	<b>16,838</b>	<b>16,621</b>	<b>152,204</b>
<b>Directors' and corporate auditors' severance benefits . . . . .</b>	<b>197</b>	<b>222</b>	<b>1,785</b>
<b>Other long-term liabilities . . . . .</b>	<b>17,034</b>	<b>15,990</b>	<b>153,970</b>
<b>Minority interests in consolidated subsidiaries . . . . .</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Shareholders' equity:</b>			
Common stock:			
Authorized — 1,000,000,000 shares			
Issued — at June 30, 2005 356,179,485 shares . . . . .	43,832	—	396,200
— at June 30, 2004 356,179,485 shares . . . . .	—	43,832	—
Capital surplus . . . . .	36,245	36,241	327,621
Retained earnings . . . . .	1,045	6,315	9,443
Unrealized holding gain on securities . . . . .	6,606	5,302	59,712
Foreign currency translation adjustments . . . . .	(299)	(334)	(2,701)
Treasury stock, at cost . . . . .	(405)	(241)	(3,659)
Total shareholders' equity . . . . .	<u>87,024</u>	<u>91,115</u>	<u>786,616</u>
	<u>¥555,005</u>	<u>¥625,505</u>	<u>\$5,016,767</u>

# CONSOLIDATED STATEMENTS OF INCOME

Six months ended June 30, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Net sales</b> .....	<b>¥208,688</b>	¥224,302	<b>\$1,886,364</b>
<b>Operating cost and expenses:</b>			
Cost of sales .....	<b>143,656</b>	155,400	<b>1,298,525</b>
Selling, general and administrative expenses .....	<b>65,772</b>	62,795	594,523
<b>Operating income (loss)</b> .....	<b>(740)</b>	6,107	<b>(6,684)</b>
Other income (expenses):			
Interest and dividend income .....	<b>480</b>	404	<b>4,335</b>
Interest expense .....	<b>(1,900)</b>	(2,580)	<b>(17,177)</b>
Other, net .....	<b>(1,720)</b>	(670)	<b>(15,543)</b>
<b>Income (loss) before income taxes and minority interests</b> .....	<b>(3,880)</b>	3,261	<b>(35,069)</b>
<b>Income taxes:</b>			
Current .....	<b>432</b>	481	<b>3,906</b>
Deferred .....	<b>976</b>	(47)	<b>8,824</b>
	<b>1,408</b>	434	<b>12,730</b>
<b>Minority interests</b> .....	-	23	-
<b>Net income (loss)</b> .....	<b>¥ (5,288)</b>	¥ 2,850	<b>\$ (47,799)</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests . . . . .	¥ (3,880)	¥ 3,261	\$ (35,069)
Depreciation and amortization . . . . .	10,974	12,924	99,199
Increase (decrease) in employees' retirement benefits . . . . .	181	(41)	1,630
Increase in allowance for doubtful receivables . . . . .	427	14	3,861
Interest and dividends income . . . . .	(480)	(404)	(4,335)
Interest expense . . . . .	1,900	2,580	17,177
Gain on sales of property, plant and equipment . . . . .	(857)	(283)	(7,749)
Loss on sales and disposal of property, plant and equipment . . . . .	1,759	537	15,894
Loss on impairment of property, plant and equipment . . . . .	23	–	204
Gain on sales of investment securities . . . . .	(383)	(388)	(3,460)
Devaluation of investment securities . . . . .	330	347	2,979
Loss from provision for cost reduction of fixed assets . . . . .	279	–	2,526
Decrease in notes and account receivables . . . . .	14,619	5,449	132,142
Increase in inventories . . . . .	(3,408)	(2,716)	(30,807)
Increase in notes and accounts payable . . . . .	60	4,025	546
Decrease in liquor taxes payable . . . . .	(17,293)	(15,438)	(156,310)
Other . . . . .	2,384	(565)	21,546
Subtotal . . . . .	6,635	9,302	59,974
Interest and dividends received . . . . .	612	526	5,535
Interest paid . . . . .	(1,969)	(2,589)	(17,793)
Income taxes paid . . . . .	(2,172)	(1,482)	(19,636)
Net cash provided by operating activities . . . . .	3,106	5,757	28,080
<b>Cash flows from investing activities:</b>			
Increase in time deposits . . . . .	(15,466)	–	(139,795)
Purchases of investment securities . . . . .	(225)	(46)	(2,031)
Proceeds from sales of investment securities . . . . .	652	1,068	5,892
Purchases of property, plant and equipment . . . . .	(4,315)	(4,730)	(39,009)
Proceeds from sales of property, plant and equipment . . . . .	2,617	1,242	23,655
Purchases of intangibles . . . . .	(80)	(420)	(725)
Increase in long-term loans receivable . . . . .	(590)	(579)	(5,337)
Collection of long-term loans receivable . . . . .	250	161	2,256
Other . . . . .	(1,192)	(866)	(10,775)
Net cash used in investing activities . . . . .	(18,349)	(4,170)	(165,869)
<b>Cash flows from financing activities:</b>			
Net increase in short-term bank loans . . . . .	5,000	4,519	45,196
Proceeds from long-term debt . . . . .	6,500	6,107	58,754
Repayment of long-term debt . . . . .	(15,561)	(12,095)	(140,651)
Proceeds from issuance of bonds . . . . .	–	20,100	–
Redemption of bonds . . . . .	(20,000)	–	(180,783)
Cash dividends paid . . . . .	(1,765)	(1,760)	(15,956)
Other . . . . .	(65)	(5,102)	(588)
Net cash (used in) provided by financing activities . . . . .	(25,891)	11,769	(234,028)
Effect of exchange rate changes on cash and cash equivalents . . . . .	80	16	728
Net increase in cash and cash equivalents . . . . .	(41,054)	13,372	(371,089)
Cash and cash equivalents at beginning of year . . . . .	58,706	8,455	530,652
Cash and cash equivalents of additional consolidated subsidiaries . . . . .	–	126	–
Cash and cash equivalents upon change of fiscal year-end of a consolidated subsidiary . . . . .	–	24	–
Cash and cash equivalents at end of the six months . . . . .	¥ 17,652	¥ 21,977	\$ 159,563

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and its consolidated foreign subsidiary, in conformity with that of its country of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Prime Minister as required by the Securities and Exchange Law of Japan.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the six months ended June 30, 2005 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥110.63=\$1.00, the exchange rate prevailing on June 30, 2005.

## 2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and 14 of its significant subsidiaries. All significant intercompany balances, transactions and profit have been eliminated in consolidation.

## 3. Amounts Per Share

Six months ended June 30,	Yen		U.S. dollars (Note 1)
	2005	2004	2005
Net income . . . . .	¥(14.89)	¥8.02	\$(0.13)
Diluted net income . . . . .	¥ -	¥7.63	\$ -

As of June 30,	Yen		U.S. dollars (Note 1)
	2005	2004	2005
Net assets . . . . .	¥245.14	¥256.42	\$2.22



#### 4. Segment Information

Financial information by business segment is summarized as follows:

Millions of yen								
Six months ended June 30, 2005	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues . . .	¥155,550	¥29,868	¥12,446	¥10,573	¥251	¥208,688	¥ -	¥208,688
Intra-group sales and transfers . . . . .	2,337	119	-	1,058	10	3,524	(3,524)	-
Total . . . . .	157,887	29,987	12,446	11,631	261	212,212	(3,524)	208,688
Operating expenses . . .	159,525	30,975	12,423	8,784	323	212,030	(2,602)	209,428
Operating income (loss) . . . . .	¥ (1,638)	¥ (988)	¥ 23	¥ 2,847	¥ (62)	¥ 182	¥ (922)	¥ (740)

Thousands of U.S. dollars								
Six months ended June 30, 2005	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues . . .	\$1,406,041	\$269,977	\$112,505	\$ 95,570	\$2,271	\$1,886,364	\$ -	\$1,886,364
Intra-group sales and transfers . . . . .	21,125	1,077	-	9,568	84	31,854	(31,854)	-
Total . . . . .	1,427,166	271,054	112,505	105,138	2,355	1,918,218	(31,854)	1,886,364
Operating expenses . . .	1,441,969	279,982	112,297	79,406	2,915	1,916,569	(23,521)	1,893,048
Operating income (loss) . . . . .	\$ (14,803)	\$ (8,928)	\$ 208	\$ 25,732	\$ (560)	\$ 1,649	\$ (8,333)	\$ (6,684)

Millions of yen								
Six months ended June 30, 2004	Alcoholic beverages	Soft drinks	Restaurants	Real estate	Other	Total	General, corporate and intercompany eliminations	Consolidated
Operating revenues . . .	¥162,793	¥31,252	¥12,883	¥10,919	¥6,455	¥224,302	¥ -	¥224,302
Intra-group sales and transfers . . . . .	2,405	111	-	2,565	14	5,095	(5,095)	-
Total . . . . .	165,198	31,363	12,883	13,484	6,469	229,397	(5,095)	224,302
Operating expenses . . .	160,932	31,647	13,001	10,391	6,602	222,573	(4,378)	218,195
Operating income (loss) . . . . .	¥ 4,266	¥ (284)	¥ (118)	¥ 3,093	¥ (133)	¥ 6,824	¥ (717)	¥ 6,107

# CORPORATE DATA

June 30, 2005

**Company Name**

SAPPORO HOLDINGS LIMITED

**Business**

Holding company

**Date of Establishment**

September 1949

**Capital**

¥43,832 million

**Number of Shares Issued**

356,179,485

**Fiscal Year-end**

December 31

**Head Office**

20-1, Ebisu 4-chome, Shibuya-ku,  
Tokyo 150-8522, Japan  
info@sapporoholdings.jp

**Number of Employees**

3,931

*(Consolidated)*

84

*(Parent company)*

**Main Banks**

Mizuho Corporate Bank, Ltd.  
The Bank of Tokyo-Mitsubishi, Ltd.  
The Norinchukin Bank

**Securities Traded: Common Stock**

Tokyo Stock Exchange, First Section

**Annual Meeting of Shareholders**

The annual meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary by giving at least two weeks' advance notice to shareholders.

**Auditors**

Ernst & Young ShinNihon



**SAPPORO**

**SAPPORO HOLDINGS LIMITED**

20-1, Ebisu 4-chome, Shibuya-ku,  
Tokyo 150-8522, Japan

<http://www.sapporoholdings.jp/english/>